‘COMMENTARAO’ in “The Telegraph” of

August 16 2016

# “The Trump Effect-The Trump effect

- The American economy will be changed by technology” by S L Rao

Many have speculated on what effect a President Trump would have on the world. Americans might well vote for Hilary Clinton who many detest. But she might be preferred over Trump. Whether he gets elected or not, he is certain to have a strong effect on the policies of any American administration and over the world.

 The USA today has become relatively weaker economically under every President, from President Jhonson. It is more unequal than it was. A good part of its manufacturing has migrated mainly to China. Chinese products sell at much lower prices than if made in the USA. Immigration from Latin America, with millions being illegal immigrants, mainly from Mexico, (now overtaken by residents of one year or less from China and India), depresses wages for low skilled white labour. Skilled workers, (engineers from India and elsewhere) support the I.T. In many industries both remotely from India and by Indians in the USA. Trump promises to sharply reduce the number of immigrants.

 Trade agreements especially the North American Free Trade Area, (NAFTA), and with China (which Trump terms ‘the greatest job theft in history’), are believed to have acted to the detriment of American manufactures. Trump and others ignore negative impacts of frère trade on Mexico and others. Trump will not proceed with the Pacific Area Trade Agreement, and says he will raise tariffs to protect American manufactures. The U.S. government has high debt, deficit balance of payments, and fiscal deficit which could get worse by these actions (but could be cushioned by technological developmenys). But they could lead to high coasts for consumers.

 Trump wants to get American companies to desist from manufacturing overseas, abandon or renegotiate all trade agreements, and sharply reduce immigration. He will thus restrict trade and investment globally. Apart from violating international agreements, they will also raise domestic prices. Trump has made rash promiseswith his superficial plans, but the issues have to be tackled by any candidate. Both h Hilary and Sanders proposed similar policies.

 In the medium term, the USA as the most powerful economy, with enormous technological and scientific capability will find ways to grow. Immigration is changing the racial colour but making it youthful. ff America cannot be written off. But relatively, other economies like India are growing faster.

 Trump’s constituency are the low income and uneducated whites (his “middle class”). The support he has garnered in the primaries shows that they are disgruntled and many in numbers. Their real incomes have been relatively static for a decade. They cannot find better paying jobs. They cannot afford the high costs of educating their children, who find borrowing for higher education prohibitively expensive. They resent the immigrants from South America and now the Muslim refugees who compete for jobs and government services.

 Hillary Clinton plans to tackle these issues are more acceptable to the world and the educated elite in the USA. She accepts that a principal cause for lower middle-class incomes compared to the Bill Clintorn’s Presidency as: globalization, technological progress in USA and overseas (reducing demand for labour and improving productivity), and poor choices by business leaders and policymakers.

 The Washington Post (July 29, whose article I have used in the next two paragraphs) showed the changes in median incomes under four Presidents as: -3% under George W Bush, +4% under Clinton, -4% under the second Bush, and -3% under Obama. Her priority is to create jobs, which pay well.

She accepts that trade agreements have been largely negative in their impact on American production and jobs. But she does not propose to withdraw from them or to ban free trade. She plans to make trade agreements enforceable, to strictly enforce them, and to renegotiate them.

Her plan includes spending more than $1 trillion to rebuild U.S. infrastructure, allow students to attend college without incurring debt and help working families afford day care for their children and take paid leave to raise them. She thinks such spending would create jobs, improve household net incomes, and accelerate economic growth. They will help low and middle-income students gain skills that are increasingly necessary for high-wage work, and reverse a recent trend of women leaving the U.S. workforce. She would raise taxes on the highest earners and impose a new minimum effective tako home pay for those programs and to curb inequality. She will clean up the banks (possibly reducing private investment funds). She would add to the Obama administration’s wave of new regulations on Wall Street and she would change the tax code to discourage companies from moving operations overseas, while encouraging them to share profits with workers and invest more in providing long-term opportunities. She plans to raise the minimum wage to $12-an-hour federal minimum. States could set higher rates if they choose. It has to be seen if all this expenditure will add to government deficits, raise prices and the exchange value of the dollar. These would have adverse economic effects on the USA and the world.

 Globalization is developing hostility among countries in the European Union. The decline of the Russian economy so dependent on oil exports whose prices have collapsed, will depress Russian trade. The Middle Eastern countries especially oil exporters like Saudi Arabia, Iraq and Libya will also reduce imports. Iran is a bright factor with the removal of sanctions. Overall global trade will not grow as in past years. Particularly the Western countries led by USA will enforce rules of agreements more strongly against China. Chinese economy is already under pressure because of vast domestic debts of provinces and state owned enterprises.Restrictions on importa feom China will make things more difficult for China. Countries might focus more on domestic markets and manufacturing. The USA will could add to its problems in the longer term pf it by depends on shale oil and gas which have polluting characteristics. But it will not.

 There are dramatic changes which will change industry and the job market. A new industrial revolution is under way. American technologists and scientists have enabled instant communications with the internet and mobile phones, information technology to control and share information, mobile banking, robotics and decentralized 3-D printin technologies that could sharply reduce production scales, renewable energy with solar, wind and geo thermal sources, at declining and increasingly competitive costs, new electricity storage technologies that eneable returning power to Grids, revolutionizes in transportation with oil products replaced by electricity, distributed energy and transmission, all leading to many more jobs and controlling pollution. Service industries are the new growth area and not manufacturing.

The next President of the USA will move to reform existing structures to benefit American workers. Innovative American technologists will change the structure itself.

India is already focused on domestic markets, preparing to smarten cities for greater urbanizationand better living, investing in skills development and education, will remain less dependent for its growth on trade and more on internal domestic markets. Indian skilled labour will find employment in the developing Third Industrial revolution in the USA. The enforcing of trade rules particularly on China might increase demand for our products.

 Trump is responding (with little detaila) to genuine concerns. Hillary will address them. In the medium term the nature of the American economy will be changed by technology. The policies under a President Hilary Clinton or Donald Trump will also change India and the rest of the global economy. In the long term the world might be better.

(1252)